

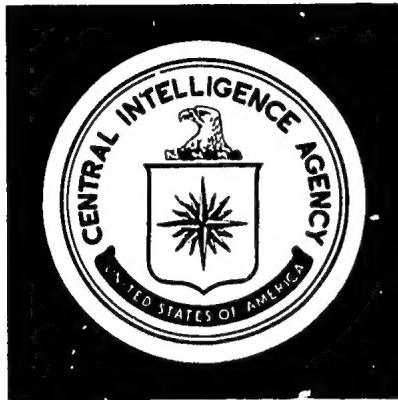
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Soviet - French Economic Cooperation

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January 1972

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1972

INTELLIGENCE MEMORANDUM

SOVIET-FRENCH ECONOMIC COOPERATION

Introduction

1. The USSR has spent billions of dollars in the period since World War II in its quest to acquire Western equipment and technology to help modernize its economy. As an additional means of obtaining Western technology, it also has concluded government-to-government scientific, technical, and industrial cooperation agreements* with a number of industrial Western countries. These agreements generally have been concluded on Soviet initiative, but Western countries, particularly France, the United Kingdom, and Italy, readily acceded in an effort to tap what they believed to be a huge market for their goods.

2. Soviet-French cooperation agreements were more numerous and generally began earlier than those the USSR made with other Western countries. The French were particularly interested in concluding cooperation agreements to gain an edge over their Western competitors in the Soviet market and give France a preferred economic and political position. The French also are better situated politically to enter into extensive government-to-government agreements because they have more instruments of control to manipulate resource allocations than most other Western governments, such as national industries and government financing of

* In this memorandum, cooperation agreements are referred to in a variety of specialized ways. The broad scientific, technological, and economic cooperation agreements -- such as the Soviet-French one in 1966 -- are the type of general, government-to-government agreement the USSR has encouraged all nations to sign in recent years. The many subagreements within this overall framework are the specific scientific, technical, and industrial pacts negotiated to carry out the aims of the overall agreement. Considerable overlap occurs between technical and industrial in this context, but for the purposes of this memorandum technical refers to the exchange of technical information or personnel and industrial refers to the exchange of equipment, data, or know-how involved in an industrial product or process. Also, trade agreements are the general expression of willingness to trade and/or the products to be traded, and trade contracts are the firm orders for particular products in particular amounts at particular prices and terms.

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investment. The USSR, for its part, has been willing to accommodate the French, not only to obtain Western technology and equipment but also to use France in its efforts to disrupt the Western alliance.

3. Both sides have expressed dissatisfaction with the progress achieved thus far under this agreement, and France in recent years has been falling behind some of its Western competitors in the quest for a larger Soviet market. The new ten-year agreement signed during Brezhnev's recent visit to Paris has stirred hopes for a revival in cooperation and for achievement of the trade goals set forth in the Soviet-French 1970-74 long-term trade agreement. This memorandum assesses the achievements of Soviet-French cooperation to date, the prospects for future cooperation, and the impact of these agreements on Soviet-French trade. It is, in effect, a case study of the influence of political factors on economic relationships between the USSR and a Western country.

Discussion

Early Soviet-French Cooperation Agreements

4. In the early 1960s a number of small-scale industrial and scientific exchange agreements were concluded between the USSR and France. Among the industrial exchanges, a 1960 patent exchange provided French industry with a Soviet process for continuous casting, and the French automotive industry concluded a number of agreements to help the USSR modernize its motor vehicle industry. Several French chemical and electronics firms also concluded industrial exchange arrangements with comparable Soviet production facilities. Finally other French-Soviet technology exchange accords involved governmental agreements to exchange information in the fields of color television, space, and aircraft. These informational exchanges provided an ongoing dialogue, which was instrumental in the eventual overall agreement reached in 1966.

5. In the field of scientific exchanges there was one major agreement. In May 1965 the French Commissariat a l'Energie Atomique (CEA) and the Soviet State Committee for the Application of Atomic Energy signed an agreement for cooperation in nuclear energy. A practical result of these negotiations was the French undertaking to install a bubble chamber at Serpukhov - the Soviet high energy research institute - in return for the right to have some 50 French scientists work with the large particle accelerator there. This stationing of a large group of Western scientists in the USSR for an extended period of time constituted a unique precedent. Under this arrangement, however, the Soviets obtained at practically no cost a sophisticated research device worth approximately \$10 million.

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CONFIDENTIAL**Soviet-French Trade, 1960-65**

6. During the early 1960s Soviet-French trade turnover fluctuated, largely because of changes in French exports. Soviet exports to France rose steadily, while French exports to the USSR fluctuated violently. French exports dropped sharply in 1963 and 1964 and did not recover to the 1962 level until 1966, in large part because of a decline in machinery and equipment exports. This poor French showing was similar to the experience of West Germany and Italy (see Table 1), and reflected, *inter alia*, the decline in Soviet imports from Western Europe during the period when the USSR bought substantial quantities of wheat from Canada, the United States, and Australia.

7. What effect, if any, cooperation agreements had on the trade of these countries with the USSR in the first half of the decade is difficult to assess. French, Italian, and British organizations and firms negotiated most of the cooperation deals in the early 1960s, but Japan and West Germany -- neither of whom had bilateral cooperation agreements -- had much larger exports of machinery and equipment in some of the lean years of the early 1960s than did France or the United Kingdom. In short, cooperation agreements then in force thus appear to have had little effect on trade.

8. France had made a number of concessions in an attempt to capture more Soviet trade. At the time of the signing of the French-Soviet 1965-69 trade agreement in 1964, the French government announced that long-term (seven-year) credits could cover one-half of the \$700 million in Soviet capital equipment orders proposed in the agreement. This announcement of a general relaxation of credit terms came after the United Kingdom and Italy had made numerous *ad hoc* exceptions to the so-called Berne Agreement to limit credits to Communist countries to five years. The Soviets for their part agreed to place important orders for French capital equipment. The French also made special efforts to keep their interest rates competitive with those of other Western countries, and in January 1966 France, along with other Western countries, liberalized quantitative restrictions on imports from the USSR and Eastern Europe.

The Soviet-French 1966 Agreement

9. General De Gaulle's trip to the USSR in June 1966 -- the culmination of a series of moves toward rapprochement since 1964 and the beginning of the "special" Soviet-French relationship -- was also an effort to gain some practical benefits for France. The USSR at that time was discussing a number of lucrative contracts with Western firms, and French business leaders were anxious to secure a preferred position in the Soviet market. For example, the French electronics industry and RCA of

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Table 1
Soviet Trade with Selected Western Countries a/

| | Million US \$ | | | | | | | | | | |
|-----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969</u> | <u>1970</u> |
| Total Developed West | | | | | | | | | | | |
| Exports | 983 | 1,069 | 1,115 | 1,218 | 1,282 | 1,438 | 1,711 | 1,886 | 2,051 | 2,230 | 2,345 |
| Imports | 1,080 | 1,093 | 1,283 | 1,400 | 1,734 | 1,601 | 1,742 | 1,782 | 2,144 | 2,495 | 2,780 |
| Of which: | | | | | | | | | | | |
| Machinery and equipment | 456 | 470 | 602 | 589 | 621 | 510 | 560 | 670 | 896 | 1,118 | 1,099 |
| France | | | | | | | | | | | |
| Exports | 74 | 79 | 85 | 104 | 106 | 111 | 130 | 145 | 137 | 141 | 140 |
| Imports | 130 | 120 | 154 | 71 | 69 | 114 | 160 | 188 | 294 | 323 | 319 |
| Of which: | | | | | | | | | | | |
| Machinery and equipment | 63 | 69 | 88 | 34 | 42 | 28 | 55 | 102 | 193 | 194 | 174 |
| West Germany b/ | | | | | | | | | | | |
| Exports | 119 | 119 | 136 | 133 | 126 | 146 | 189 | 196 | 215 | 229 | 257 |
| Imports | 199 | 179 | 208 | 151 | 202 | 136 | 144 | 176 | 242 | 350 | 375 |
| Of which: | | | | | | | | | | | |
| Machinery and equipment | 96 | 91 | 62 | 75 | 139 | 73 | 100 | 61 | 105 | 175 | 139 |
| Italy | | | | | | | | | | | |
| Exports | 103 | 130 | 131 | 137 | 134 | 148 | 155 | 233 | 232 | 232 | 212 |
| Imports | 90 | 96 | 99 | 136 | 98 | 102 | 95 | 154 | 208 | 317 | 313 |
| Of which: | | | | | | | | | | | |
| Machinery and equipment | 30 | 43 | 33 | 81 | 52 | 39 | 38 | 83 | 110 | 201 | 197 |
| United Kingdom | | | | | | | | | | | |
| Exports | 192 | 227 | 213 | 215 | 239 | 291 | 330 | 303 | 367 | 427 | 465 |
| Imports | 108 | 128 | 117 | 130 | 103 | 152 | 169 | 197 | 273 | 240 | 248 |
| Of which: | | | | | | | | | | | |
| Machinery and equipment | 58 | 77 | 62 | 64 | 47 | 71 | 102 | 94 | 134 | 126 | 110 |
| Japan | | | | | | | | | | | |
| Exports | 76 | 113 | 113 | 124 | 165 | 185 | 239 | 353 | 391 | 377 | 379 |
| Imports | 62 | 67 | 146 | 165 | 193 | 177 | 224 | 166 | 185 | 264 | 345 |
| Of which: | | | | | | | | | | | |
| Machinery and equipment | 19 | 29 | 79 | 86 | 133 | 73 | 106 | 66 | 65 | 76 | 123 |

a. Exports are f.o.b. Soviet ports. Imports are f.o.b. foreign port or country border. Soviet exports to and imports from the indicated trading partner.
b. West Germany includes West Berlin, except for 1960-61 when the USSR did not report trade with West Berlin.

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the United States were both seeking to equip the USSR with a modern color television capability, a contract promising \$300 million over a ten-year period. Other Western firms were bidding on large orders for ships and for chemical and other industrial plants. Even though the competitive position of French firms in many sectors of industry did not seem particularly strong, it was hoped that De Gaulle's relationship with the USSR would be translated into additional Soviet business for France.

10. On 30 June, General De Gaulle and his hosts signed an agreement providing for broad Soviet-French scientific, technological, and economic cooperation. The accord set forth broad principles of cooperation, especially in those fields offering the prospect of industrial exchanges. This agreement was not hastily negotiated during the De Gaulle visit. Rather, the idea grew from the ongoing talks on space cooperation, Soviet adoption of the French SECAM television system, the 1965 atomic energy covenant, and other industrial cooperation negotiations. In addition, the agreement was an attempt to give concrete evidence of the Soviet-French political rapprochement. As such, the agreement was very general and was designed to permit the maximum flexibility by providing a framework under which more specific accords could be worked out. The types of cooperation envisioned included exchanges of scientific and technical delegations, experts, and documentation; bilateral conferences; joint research on basic and applied scientific problems with a view toward industrial applications; development of new technological processes for industry; and studies of industrial organization and productivity.

11. This agreement included a number of novel arrangements. The establishment of a permanent intergovernmental organization was an innovation; most previous Soviet exchange accords were concluded with firms or trade associations in the West. Moreover, the administrative apparatus to implement the agreement was and is the most elaborate ever established between the USSR and a Western country. The Soviet-French agreement also was more inclusive in coverage of activities than the usual cooperation agreements at that time, which were usually limited to a single industrial sector or scientific endeavor.

12. Under this agreement a joint standing committee -- the Grande Commission -- was set up as a high-level governmental group to oversee a structure of bilateral accords and was originally scheduled to meet twice a year. The Petite Commission, a preparatory body and the executive arm of the Grande Commission, was formed to supervise the industrial cooperation agreements. In addition, a number of semi-independent subordinate organizations were created, such as the Joint Commission on Commercial Accords, the Joint Commission for Color Television, and three working groups on space matters: (1) the Group for the Scientific Study of Space; (2) the Space Telecommunications Group; and (3) the Group

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for Meteorology and Aerology. Most of the actual work, however, was left to the dozen working groups formed under the Petite Commission and staffed by government and industry people.* Other joint groups created by the Petite Commission include the Joint Working Group for the Exchange of Economic Information, which provides both countries with technical data, and the Franco-Soviet Chamber of Commerce, organized in February 1967 with offices in Paris and Moscow.

Results of the 1966 Agreement

13. The meetings of the various commissions and working groups have since 1966 produced volumes of claims for ever-increasing Soviet-French cooperation with great benefits for each side. During the initial stages of organization and operation - 1967-69 -- many industrial and scientific cooperation subagreements were signed. However, complaints about the operation of these agreements increased just as rapidly. The French members of many of these commissions and working groups soon became convinced that the Soviets were more interested in securing technical data and processes cheaply than in any meaningful exchanges or purchase contracts. Some French members resigned in protest against the one-way exchange, including the head of Renault. The USSR also complained as its trade balance with France worsened; it accused the French government of failure to follow through on agreements to purchase more Soviet products, particularly manufactured products. In this period, Soviet exports still consisted primarily of raw materials and semifinished products. On the other hand, French exports to the Soviet Union nearly tripled between 1965 and 1969, compared with a gain of less than 50% in such exports by the balance of the Developed West. As a result, the French share of total Soviet imports from the Developed West nearly doubled, rising from 7% in 1965 to 13% in 1969 (see Table 2). To the extent that the De Gaulle-Soviet accord of 1966 facilitated the rapid rise in French exports, the agreement was successful.

14. The French obtained the first trade benefit from the June agreement in October 1966, when the USSR agreed to purchase 12 refrigerator ships from France, although the \$93 million order was not finally concluded until 1968. During 1967-68, France led all Western countries in obtaining Soviet orders for plant and equipment. In addition to the large order for ships, French manufacturers received substantial orders

* The working groups are: chemical industry and equipment, aeronautical industry, heavy mechanical and electrical equipment, electrotechnical industry, metallurgy of iron and other metals, household equipment, clothing manufacturing and related equipment, food industry and related equipment, gas and oil industries, tractors and agricultural machinery, machine tools, forges, presses and related equipment, and wood-processing industry.

CONFIDENTIAL**Table 2****French Share of Soviet Trade
with the Developed West**

| <u>Year</u> | <u>Soviet Exports To</u> | | | <u>Soviet Imports From</u> | | |
|-------------|--------------------------|----------------------|----------------------------------|----------------------------|----------------------|----------------------------------|
| | <u>Developed West</u> | | <u>France</u> | <u>Developed West</u> | | <u>France</u> |
| | <u>Million US \$</u> | <u>Million US \$</u> | <u>Percent of Developed West</u> | <u>Million US \$</u> | <u>Million US \$</u> | <u>Percent of Developed West</u> |
| 1960 | 983 | 74 | 7.5 | 1,080 | 130 | 12.0 |
| 1961 | 1,069 | 79 | 7.4 | 1,093 | 120 | 11.0 |
| 1962 | 1,115 | 85 | 7.6 | 1,283 | 154 | 12.0 |
| 1963 | 1,218 | 104 | 8.5 | 1,400 | 71 | 5.1 |
| 1964 | 1,282 | 106 | 8.6 | 1,734 | 69 | 4.0 |
| 1965 | 1,438 | 111 | 7.7 | 1,601 | 114 | 7.1 |
| 1966 | 1,711 | 130 | 7.6 | 1,742 | 160 | 9.2 |
| 1967 | 1,886 | 145 | 7.7 | 1,782 | 188 | 10.5 |
| 1968 | 2,051 | 137 | 6.7 | 2,144 | 294 | 13.7 |
| 1969 | 2,230 | 141 | 6.3 | 2,495 | 323 | 12.9 |
| 1970 | 2,345 | 140 | 6.0 | 2,780 | 319 | 11.5 |

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for chemical plants and automotive vehicle manufacturing equipment. These orders were reflected in the sharp upsurge in French exports of machinery and equipment in 1967 and 1968, which averaged almost \$150 million in those years, compared with the 1960-66 average of about \$50 million. Other French exports also increased sharply during this period. At the autumn 1968 meeting of the Grande Commission, the USSR agreed to make a special purchase of French consumer goods in 1969 over and above the existing Soviet commitment to purchase some \$30 million in consumer goods that year. As a result, sales of these goods in 1969 reached \$43 million, up from only \$1 million in 1964. Thus, French manufacturers profited for the first few years following the cooperation agreement. There is no indication that France succeeded in expanding exports because of any competitive advantages, particularly with respect to machinery. France's competitive position in virtually all machinery manufacturing industries is relatively weak.*

15. In many ways, however, industrial cooperation has been disappointing for both sides. For some time the USSR had been interested in obtaining advanced Western technology and equipment used in oil exploration, drilling, transfer, and storage. A French geophysical firm, SERCEL, was a participant in one of the agreements negotiated under the 1966 accord and has over the succeeding years sold various types of seismic equipment to the Soviets. The French and the Soviets, however, have been unable to devise a complete system for processing seismic data, even though the French allegedly utilized embargoed US technology to improve the jointly developed system. The Soviets have found it necessary to order more than \$5 million worth of seismic data acquisition systems from US manufacturers in 1970 and 1971.

16. Soviet experience with the agreement involving French color television also has been disappointing. As a direct result of the De Gaulle visit, the Soviet Union announced in 1966 that it had agreed to adopt the French-sponsored SECAM III color television process and that it would "encourage" Eastern Europe to do the same. Under a number of supporting agreements, the USSR procured French-designed studio color equipment, agreed to base the entire Soviet system on French-designed equipment, and agreed to the joint development of video recorders. The expected large Soviet orders from French television manufacturers have not been forthcoming, however. In early 1967 the French firm Compagnie Francaise

* France's share, for example, of total OECD (Organization for Economic Cooperation and Development) exports of machinery and equipment in the OECD market in 1969 was 6.4%. In those categories which accounted for the major share of the increase in French exports to the USSR during 1966-68 -- for example, chemical equipment and machine tools -- France's share was no greater. France's share of total OECD exports in the OECD market in 1969 was 8.1%.

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de Television (CFT) secured a contract to build a pilot facility in the USSR for the production of maskless picture tubes. This experimental plant was to be followed by a larger facility for industrial-scale production. However, CFT apparently encountered major problems in developing technology for this scale of production, and in 1968 the USSR turned to a US manufacturer for a picture tube production facility. The Japanese also were given a contract for a ceramic capacitor plant, the output of which is to be used for the production of color television receivers.

17. A number of industrial, technical, and scientific cooperation agreements seem to have had some degree of success. Among the successful projects have been the joint development of a process for making isoprene and its subsequent joint sale to the Japanese in 1969. Another successful project has been the use by the French specialty steel producer, CAFEL, of a Soviet-developed electroslag remelting process and its latest innovations. Also, the French machine tool firm, Alcatel, signed a cooperative production agreement with the USSR under which Alcatel will provide numerical control devices for Soviet machine tools, and the French will market some of the tools in hard currency countries. By 1973, the joint venture is expected to produce about 800 of the machine tools.

18. Little is known about the amount of technology exchanged or the direction of the technology flows under the agreement for exchange of technical information. Compagnie General d'Electricite, a leading French electrical equipment manufacturer, entered into a number of joint research and development projects for the transmission of electricity. Other agreements were for standardization of electrical equipment to permit interchangeability, a broad patent exchange, and methods to protect industrial secrets. The Soviets sought and obtained agreements in two other areas of special interest to them - industrial management and economic planning. Exchanges under these latter agreements were set up in such areas as computer usage, mathematical methods in management, the measurement of labor productivity, and the development of more efficient planning methods.

19. On balance, the overall effectiveness of scientific cooperation agreements is impossible to measure, but some of the agreements seem to have yielded some mutual benefits. Many of the benefits, however, again seem to accrue to the Soviets. For example, the French-designed Mirabelle liquid hydrogen bubble chamber is now installed at the Serpukhov High Energy Physics Institute, and French technicians are working with the Soviets.

Similarly, an agreement on oceanography has given the Soviets access to the work and design of Jacques Cousteau's Center for Advanced Maritime Study; and, as a result of the space cooperation

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agreement, the Soviets obtained access to French microelectronic components and instruments. The Soviets supplied the rocket boosters, but have gained from using French technology in scientific satellites.

Trade Problems

20. Almost from the time the 1966 agreement was signed, the USSR was disappointed with the French government's inability to ensure that the private sector would implement the undertakings agreed to by the various commissions, especially in terms of accepting increased Soviet exports. To still Soviet criticism, the French government instituted measures to encourage French industry to cooperate in this area. For example, in connection with Renault's sale of machinery to modernize the Moskvich automobile plant in the USSR, the government guaranteed assistance to French importers in the disposal of some 1,500 Moskvich cars taken in partial payment. The government also helped by making available long-term, low-interest credits. The French government, moreover, encouraged ten leading import houses to form a syndicate - Commetorg - to dispose of Soviet goods taken in barter.

21. In other cooperative measures, two joint Franco-Soviet marketing companies were established in France to promote the sale of Soviet goods: one, SOGO, will promote the sale of Soviet chemicals; the other, Russo-Bois, will specialize in selling Soviet wood, pulp, and paper. Also, a joint company, Actif-Avto, was formed by the French firm Actif and the Soviet export organization Traktoreksport to sell and service Soviet tractors on the French market. Actif-Avto has made special efforts to ensure a good reception for Soviet equipment, including glowing and exaggerated reports in French newspapers attesting to the high quality of Soviet tractors. Actif-Avto also was the first organization to sign a long-term contract within the framework of the Soviet-French agreement on trade and economic cooperation for 1970-74. By 1975, Soviet tractor exports to France are to increase to about 5,000 units, almost four times the quantity exported in 1969.

22. These efforts appear to have had little effect on Soviet exports to France, which have stagnated for four years and not kept pace with imports. Consequently, the USSR has had substantial trade deficits with France for 1968-70 - \$157 million in 1968, \$182 million in 1969, and \$179 million in 1970.* This problem was formally recognized in the five-year trade and economic cooperation pact signed in May 1969, which called not only for a doubling of trade over the period but also for new

* Using non-Communist trade statistics, the French trade surplus for 1968, 1969, and 1970 would be only \$73 million, \$59 million, and \$70 million, respectively -- Soviet exports, f.o.b., and imports c.i.f. One-third to one-half of the difference is transportation charges. The remaining difference is unexplained but may be related to French classification of re-exports and differing definitions of what is included in commodity trade.

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measures to stimulate Soviet exports to France, especially manufactured goods. The French, however, have stressed at recent meetings of the Grande and Petite Commissions, as well as at meetings of the Franco-Soviet Chamber of Commerce and elsewhere, that the USSR must improve the quality and variety of its products and assure service after the sale if it is to increase its sales of manufactured goods in the West.

23. In an attempt to stimulate sales of machinery and equipment, the Soviet Minister of Ferrous Metallurgy and the French Minister of Finance and Economic Affairs signed a memorandum in Paris in 1970 proposing Soviet participation in the erection of an integrated steel plant costing some \$1 billion to be built at Fos-sur-Mer near Marseilles. The USSR was expected to supply know-how and equipment and to give credit on terms similar to those granted by the French exporters of capital equipment. A delegation of French steel manufacturers, returning from meetings in the USSR in 1971, however, was less than enthusiastic about Soviet technology and equipment, and the expected Soviet participation was reduced substantially. The Soviets again expressed disappointment at the inability of the French government to force French industry to assume undertakings negotiated by the government. On 7 December 1971 the USSR and France signed a contract for the USSR to supply \$2 million in cooling equipment for the blast furnaces at the billion dollar plant. Although both sides still talk about further Soviet participation, no other equipment contracts for the USSR seem imminent.

24. In another attempt to stimulate Soviet exports of machinery and equipment, the Soviets and the French have discussed cooperation in building a refinery at Le Havre utilizing Soviet equipment. The USSR for some time has been interested in obtaining access to refining capability in the West to process Soviet crude oil and thus increase its value before sale in the West. Earlier discussions with the Belgians about building a refinery at Antwerp indicated that the Soviets were interested in a hydrocracking refinery, but neither the Soviets nor the French have a commercially proven hydrocracking process. French oilmen, who are familiar with Soviet refinery technology because they are assisting the USSR in building a large hydrocracking refinery at Ufa in the USSR, have expressed doubts about the quality of Soviet equipment for use in the Le Havre refinery.

25. The French and the Soviets have found one novel way to help increase Soviet exports to France. The French have agreed to deliver to the USSR in 1973 some 450 tons of natural uranium already converted to uranium hexafluoride at Pierrelatte. The uranium will be enriched in a Soviet gaseous diffusion plant and will be returned for use as fuel in the French power reactor at Fessenheim. The accord foresees production of 75 tons of enriched uranium at an announced cost of between \$5.4

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million and \$7.2 million, probably slightly below US Atomic Energy Commission charges for the same work. The enrichment deal permits the USSR in effect to export relatively cheap Siberian electric power to Western Europe without erecting transmission lines, since electric power is the major cost - 70% to 75% - of the enriching process. In addition, the Soviet gaseous diffusion plants apparently have excess capacity.

Soviet-French Agreement in 1971

26. The ten-year cooperation agreement signed in Paris during Soviet Communist Party Chief Brezhnev's visit continues and expands the original cooperation agreement begun in June 1966. Once again the governments will provide the push for mutual participation in the other country's development plans, and they will act through the previously established commissions. This agreement and the tentative agreement with Renault for participation up to \$240 million in engineering, equipment, and technology for the Kama River truck plant project were unexpectedly large economic developments from a visit that was heavily weighted with political objectives. Renault thus far has only one firm contract - \$10 million for engineering design for the engine plant -- with the contracts for technology and equipment subject to later negotiations. Both sides have hailed these economic agreements as evidence of the revitalization of the special Soviet-French relationship and the beginning of an expanding era of economic cooperation.

27. An upsurge in Soviet-French economic activity began even before Brezhnev's trip. In August 1971 the USSR and France initiated a pipe-for-gas agreement whereby the French would supply \$200 million in large-diameter pipe with repayment being tied to an agreement by the Soviet Union to supply 2.5 billion cubic meters of natural gas annually for 20 years starting in 1975.* Just before the Brezhnev visit, Moscow also broadcast a report that Soviet-French trade for 1971 would exceed \$600 million, an increase of more than 30% from the 1970 trade turnover. Again, any large increase would be in French exports as deliveries are being completed on a number of orders dating back to the peak years of this cooperation, 1967-69. The report also claimed increased Soviet exports to France of machinery and equipment and said that France would participate in building a number of enterprises in the Soviet Union - possibly involving a pulp and paper complex in Siberia and development of mineral deposits in the same area - with part of the output of these enterprises being exported to France. The new agreement (and French officials) stressed again Soviet participation in the construction of the French steel works at Fos-sur-Mer and the French refinery near Le Havre. However, early Western trade statistics do not

* This agreement reportedly had a December 1971 deadline, which has expired, but negotiations are expected to continue, and a firm contract is expected eventually.

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support the reported large growth in trade, and the new trade proposals would not affect 1971 trade.

28. Despite the official glow about trade and cooperation, the real problems, which were not overcome in the 1966-70 period, still threaten the future of the new agreement. Trade will rise and cooperation will expand, but the basic imbalance in favor of France will not be redressed by signing agreements. Soviet exports to France of manufactured goods will depend on real improvement in quality and marketing ability. Continued growth of French exports to the USSR will also depend on quality, price, credit terms, and Soviet need for political leverage in France. Some of the latter seems likely to be a factor for some years to come, but it has often been served as much by appearance and promise as by performance.

Conclusions

29. Soviet-French economic cooperation has been one facet of a special Soviet-French relationship extending over a long period of time. Each side has sought its own ends in the relationship. The USSR has wanted sophisticated Western technology and equipment and has hoped to weaken the Western alliance by encouraging French independence. France had sought to gain a larger share of the Soviet market for Western capital goods, to bolster its position among the major powers of the world, and to further its efforts for East-West detente. Before the mid-1960s, trade and cooperation agreements brought little satisfaction to either side, and neither side gave much more than lip service to those accords. Despite the low level of this activity, a continuing dialogue was begun, and some cooperation was achieved.

30. The extensive Soviet-French scientific, technological, and economic cooperation agreement signed in 1966 established a permanent intergovernmental organization with an elaborate administrative apparatus to further the goals of the two partners. Despite the signing of a number of industrial and scientific agreements and the rapid growth of trade between France and the USSR, neither partner was particularly satisfied. On balance, however, each side achieved at least part of its major objectives. The USSR benefited from the acquisition of industrial equipment and technology and from access to some of the best Western scientific knowledge and equipment. For its part, France did improve its exports to and overall trade with the Soviet Union. French trade with the USSR probably would have grown during this period, but French exports certainly were more than they would have been without the 1966 agreement.

31. Both countries took advantage of the signing of a new five-year trade pact in 1969 to call for increased measures to fulfill the goals of

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the trade pact -- a doubling of trade in the 1970-74 period compared with 1965-69 -- and to revive the overall cooperation agreement. The trade pact pointed up the need for measures to stimulate Soviet exports to France, but the French stressed that the USSR must improve the quality, variety, and service of its products if its sales of manufactured goods in the West were to increase. Still, Soviet-French trade in 1970 declined for the first time in eight years.

32. Party Chief Brezhnev's visit to Paris in 1971 was primarily political in its objectives, but apparently it was also designed to instill new life into economic cooperation with the signing of a ten-year extension and expansion of the original cooperation agreement. Closely preceding, following, and coincident with the Brezhnev visit came the signing of a number of Soviet-French industrial agreements. Renault signed an agreement for about \$240 million worth of engineering design, equipment, and technology for the Soviet Kama River truck plant, although the only firm contract is for just \$10 million with the balance subject to future negotiation. Also signed were agreements for French pipe worth \$200 million in exchange for Soviet natural gas and for Soviet equipment for a French steel complex. These economic agreements have been hailed in both countries as evidence of the renewed growth in Soviet-French relations and economic cooperation. Trade and cooperation will expand in the near future, but any dramatic long-range growth will continue to depend on the political as well as the economic needs of each government.

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